



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G05-12
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
RED SHIELD INSURANCE COMPANY)	AND ORDER ADOPTING REPORT
)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **RED SHIELD INSURANCE COMPANY** (the Company) as of December 31, 2003, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings instructions was transmitted to the Company for its comments on April 15, 2005. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 18 of the report.

RED SHIELD INSURANCE COMPANY

Order Adopting Examination Report

May 13, 2005

Mailing Address: P.O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **RED SHIELD INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented the Instructions prior to the date of this order. The Instructions in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-6.

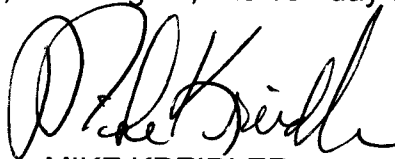
1. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions. Instruction 1, Examination Report, page 1.
2. The Company is ordered to comply with RCW 48.05.073, which requires every insurer to "... file its financial statements in accordance with the accounting practices and procedures manual..."; RCW 48.05.280, which stipulates that, "Every insurer shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs."; WAC 284-07-050(2) which states that each company should prepare "an annual statement as promulgated by the NAIC ...insurers shall adhere to the appropriate NAIC Annual Statement Instructions and Accounting Practices and Procedures Manuals promulgated by the NAIC." Instruction 2, Examination Report, page 4.
3. The Company is ordered to comply with RCW 48.13.030(1) by limiting its investment in any single entity to four percent of its total assets. Instruction 3, Examination Report, page 4.
4. The Company is ordered to comply with RCW 48.05.073, which requires every insurer to "... file its financial statements in accordance with the accounting practices and procedures manual..."; RCW 48.05.280, which stipulates that, "Every insurer shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs."; WAC 284-07-050(2) which states that each company should prepare "an annual statement as promulgated by the NAIC ...insurers shall adhere to the appropriate NAIC Annual Statement Instructions and Accounting Practices and Procedures Manuals promulgated by the NAIC." The Company is

further ordered to establish custodial agreements with Wells Fargo Bank and Bank of America, and transfer Vanguard Mutual Funds to an approved custodian as defined pursuant to RCW 48.13.450. Instruction 4, Examination Report, page 4.

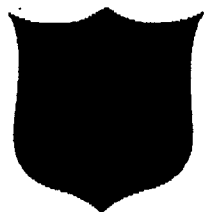
5. The Company is ordered to execute an agreement with its reinsurance intermediary-broker pursuant to Chapter 48.94 RCW. Instruction 5, Examination Report, page 5.
6. The Company is ordered to formalize the Income Tax Sharing Agreement to specifically outline the terms of the agreement. This formal agreement should be filed with the OIC in accordance with RCW 48.31B.025(2)(c)(viii). Instruction 6, Examination Report, page 5.
7. The Company is ordered to comply with RCW 48.07.040 which requires the Company to hold its annual meetings according to its Bylaws. Instruction 7, Examination Report, page 6.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 13th day of May, 2005.

A handwritten signature in black ink, appearing to read "Mike Kreidler", is written over a horizontal line.

MIKE KREIDLER
Insurance Commissioner

**RED SHIELD
INSURANCE COMPANY®**

Administration Offices (206) 762-4338
Fax (206) 763-1139

7245 W. Marginal Way, S.W.
P.O. Box 3736
Seattle, Washington 98124

May 9, 2005

Office of the Insurance Commissioner
State of Washington
P.O. Box 40255
Olympia WA 98504-0255

Attn: James Odiome
Deputy Insurance Commissioner

Re: Exam report as of 12/31/2003

Dear Mr. Odiome:

Red Shield Insurance Company (RSI) makes the following comments in response to the draft of exam dated December 31, 2003:

1. Misclassifications
 - a. Vanguard Investments. RSI will classify Vanguard as stocks.
 - b. Tax overpayment. RSI will correct this classification.
 - c. Advanced premiums. RSI will reclassify these items as liabilities.
 - d. Remittances and items not allocated. RSI will reclassify these items as liabilities.
 - e. Commissions payable. RSI will record these as a liability.
 - f. Assumed reinsurance. RSI will separate assets and liabilities on assumed reinsurance from Rainier Insurance Company.
 - g. Guaranty Fund assessment. RSI will comply with posting as receivable future offsets.
 - h. Undisclosed transactions with related parties. In future, RSI will disclose transactions with the related parties named on Schedule Y.
 - i. EDP equipment. RSI will record this item as asset.
2. Transaction date. RSI will ensure correct dates are used.
3. Investment limitation. RSI will reduce investment to comply with limitation.
4. Custodial agreement. RSI will update custodial agreement. Washington Dept. of Insurance will send a sample agreement as advice.

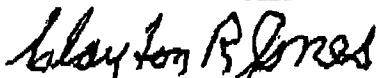
Department of Insurance
Attn: James T Odiome
Re: Exam report as of 12/31/2003
May 9, 2005
Page 2

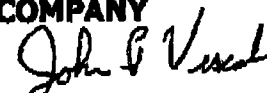
5. Reinsurance intermediary. RSI will have contract completed.
6. Income tax sharing agreement. RSI completed this agreement in 2004 and a copy has been sent to the Dept.
7. Company bylaws. RSI will comply with items in bylaws.

Red Shield Insurance Company wishes to thank Mr. McNaughton and his staff for their hard work in completing the exam and making some small corrections of errors that appeared. These errors were addressed in a separate letter, a copy of which is enclosed for your reference.

Sincerely,

RED SHIELD INSURANCE COMPANY


Clayton R. Jones, President


John P. Visich, Treasurer

CRJ/JPV:cs
Enclosure